ANNUAL REPORT 2003/2004

# Nova Scotia **Business** Inc.

*NEW BUSINESS THINKING*

BUILDING NOVA SCOTIA'S ECONOMY.

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" Good, solid business fundamentals drive NSBI's thinking and our results."

— F. Thomas Stanfield, Chairman of the Board

" It's all in the numbers and the results; NSBI's proactive, business-driven approach is working."

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Determined — the word aptly describes Nova Scotia Business Inc., as well as the businesses with which we work in every region of this province. Through the fiscal year 2003/2004, we've proven this everyday by helping companies to strengthen their businesses, expand their markets, and sell their products and services to the rest of the world. Also, NSBI has gone beyond our borders to attract businesses to Nova Scotia. Our efforts are succeeding because Nova Scotia's strong business case is capturing the attention of global companies that match the needs and skills of this province. Our success is deliberate. NSBI was created out of the need for a fresh approach to the province's strategy for economic prosperity. NSBI is designed to be proactive and persistent in the effort to build a lasting foundation for a strong, diversified economy in Nova Scotia. NSBI is committed to its mandate, and the past year has proven why.

NSBI and Nova Scotia businesses did not waiver in the face of external economic factors that had an impact on each and every one of us. During the past year, the weakened U.S. dollar/economy, sudden acute respiratory syndrome (SARS), and cross-border issues (such as the softwood lumber dispute) combined to slow growth in Canada and Nova Scotia. However, Nova Scotians are moving forward into 2004/2005.

We at NSBI are proud to be a part of Nova Scotia's business community. We share the same focus: to grow a prosperous Nova Scotia. We share the same principles: due diligence, accountability, and focus on achieving a significant financial return for shareholders in this province. Looking ahead, Nova Scotia businesses are optimistic and with good reason: the economic forecasts are improving, Nova Scotia businesses are broadening market activity, and more jobs are being created.

With a sense of accomplishment, we report on NSBI's activities and achievements during 2003/2004, our second full year of operation. Once again, NSBI met or exceeded all its key goals. Working proactively with our business partners, from one end of this province to the other, NSBI's business-focused and hands-on assistance contributed to the establishment or expansion of 25 businesses in 13 communities, with a forecast of creating or maintaining up to 4,000 jobs.

For every investment dollar authorized through NSBI, an additional two dollars were leveraged from partners, such as investors and lenders. NSBI achieved this in collaboration with businesses and other partners. Clearly, our approach is working.

### OUR BUSINESS IS GROWTH

The corporation's Business Advisory Team (BAT) Account Executives live in the communities they serve, and work shoulder-to-shoulder as members of their business communities. Through more than 700 proactive and responsive meetings with businesses and an ongoing series of timely surveys, NSBI kept its ear to the ground and remained on top of the issues. NSBI reinforced its commitment to increase the competitiveness of smaller businesses, and the corporation's staff enhanced NSBI's credibility and reputation for professionalism. In 2003/2004, every member of BAT worked toward or completed their Business Retention and Expansion International (BREI) certification, an internationally recognized framework and professional designation for community economic development practitioners. NSBI has customized its use of BREI to help companies export their goods and services. As an additional value for the Nova Scotia businesses NSBI serves, Account Executives work directly with them to take advantage of any opportunities or improvements that will increase business growth. In 2004/2005, NSBI will measure how its customized approach to BREI affects the growth of net sales and net jobs in this province.

Through NSBI's Export Prospector and Prospector Plus programs and through work with partners at Trade Team Nova Scotia and the Canada/Pan-Atlantic International Business Development Agreement, 290 companies achieved export sales of more than $52 million in 2003/2004. During the year, NSBI authorized loans of $10.3 million for 16 businesses, putting needed working capital into the hands of entrepreneurs working in a diverse range of sectors. These businesses wanted to grow and had solid business cases. The companies upgraded, modernized, and expanded, with the objective of increasing capacity, competitiveness, and the ability to seek and service new markets.

NSBI's advisory councils in Toronto and Massachusetts continued to foster co-operation with key business contacts, enabling NSBI to identify business opportunities in those

# MESSAGE FROM THE CHAIR AND PRESIDENT/CEO

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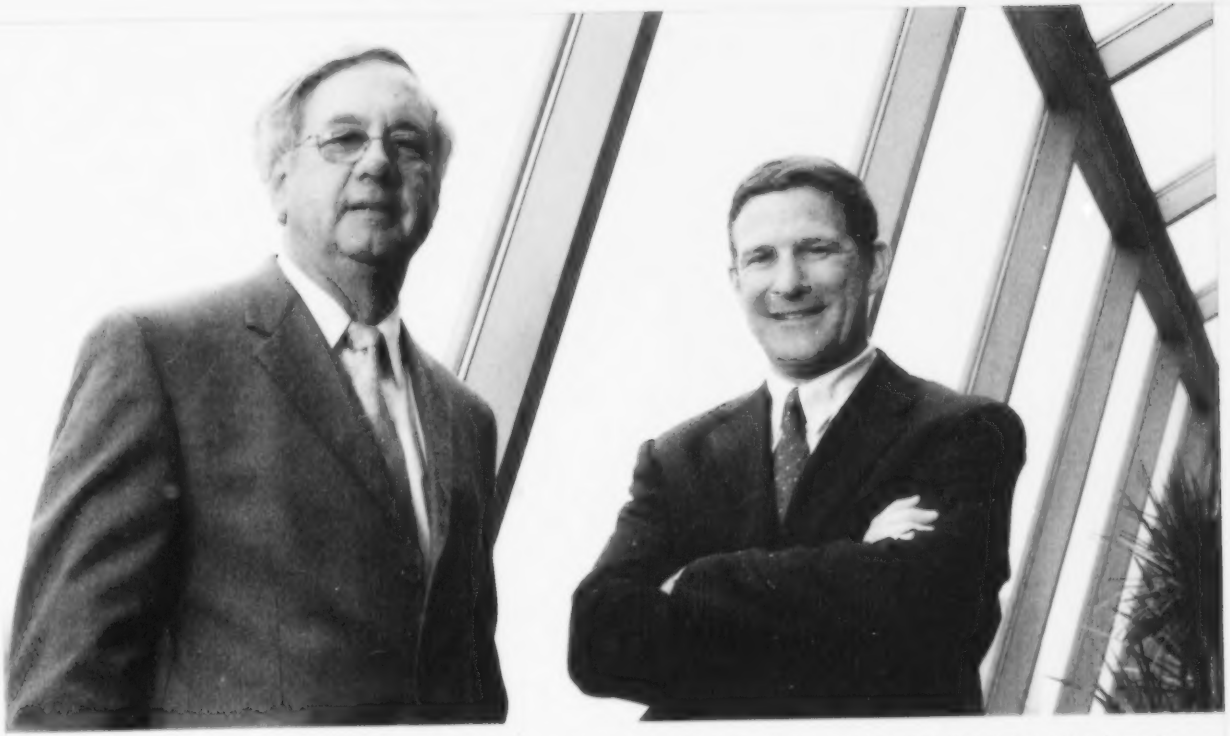


Left to right:
F. Thomas Stanfield and
Stephen E. Lund

regions for Nova Scotia businesses. In 2003/2004, NSBI attracted growth-oriented businesses to the province, in key areas such as information technology (IT), life sciences, energy, learning, and advanced manufacturing. NSBI continues to identify and nurture relationships, and learn about potential markets for Nova Scotia. Concurrently, NSBI met with business and community leaders here at home to conduct a series of 14 regional business-case analyses. The results enabled NSBI to target companies that fit with the long-term requirements and business-development strategies of Nova Scotia and its regions.

## OUR BELIEF IN WHAT WE DO

NSBI is business-focused and results-oriented for a good reason. Thirteen proven, committed, and respected businessmen and women lead NSBI as its Board of Directors. Board members come from communities across Nova Scotia and represent various industry sectors. The Board upholds rigorous standards of accountability.

NSBI will strive to meet its goals and serve to enable businesses to achieve economic prosperity for themselves and the whole province. In doing so, the corporation will continue to be mindful of its accountability to stakeholders.

NSBI will develop relationships and networks, expanding its reach and expertise.

The corporation will harness the resources, skills, and contacts of partners within the provincial and federal governments as well as key trading markets, such as Toronto and New England. NSBI will focus on identifying the strengths of smaller businesses, and expand programs that will assist them.

Again, we are proud of what NSBI and its partners have achieved to date. Moving forward, NSBI will capitalize on the momentum we have built together. We, and the businesses we serve, are on track. With that in mind, thank you to the Board, NSBI's staff, partners, and all shareholders for their work and continued determination. Applying passion and creativity, everyone at NSBI will contribute to the growth of Nova Scotia businesses. With this commitment, we will build upon our foundation of success, and we look forward to continuing to grow our economy in 2004/2005.

# CORPORATE SCORECARD

IN 2003/2004, NSBI TRACKED ITS PROGRESS THROUGH ITS CORPORATE SCORECARD, A MANAGEMENT TOOL THAT MEASURES THE PERFORMANCE OF DEPARTMENTS AND INDIVIDUALS BY WEIGHING RESULTS AGAINST OBJECTIVES. NSBI EXAMINED ITS SUCCESSES AND ADDRESSED THE CHALLENGES THAT HAD AN IMPACT ON PERFORMANCE. FOR THE FISCAL YEAR 2004/2005, NSBI HAS ADJUSTED ITS GOALS TO REFLECT THE EVOLUTION OF ITS BUSINESS-DEVELOPMENT APPROACH. THE CORPORATION REMAINS COMMITTED TO REACHING OR SURPASSING ALL TARGETS.

Objective: To promote growth of new and existing businesses in Nova Scotia by helping them expand and export their products and services internationally.

| MEASURE | TARGET 03/04 | FINAL 03/04 | TARGET 04/05 |
|---|---|---|---|
| Number of NSBI meetings with Nova Scotia companies to identify expansion-related opportunities and challenges | 792 * | 767 * | ** |
| Reported export sales by NSBI export-development clients (actual and imminent) | $6 million | $32 million | *** |
| **New client-level measure introduced in 2003/2004** Number of client meetings arranged by NSBI with potential buyers, distributors, or partners in key markets | 500 | 533 | 500 |
| **New measure for 2004/2005** NSBI will measure the number of export companies penetrating new markets and/or developing existing markets | N/A | N/A | 100 |

* This number represents proactive and reactive meetings. Reactive meetings were not reported in the 2002/2003 Corporate Scorecard.
** NSBI is refining its targets to match its evolving business advisory activities; therefore, the corporation will replace this measure in 04/05.
*** In 2004/2005, NSBI will track its export-development performance through the incremental export activity of each client.

Objective: To attract growth-oriented, sustainable businesses to Nova Scotia.

| | | | |
|---|---|---|---|
| Number of companies to relocate part or all of their business to Nova Scotia (new investment attraction) | 8 | 13 | 10 |
| Number of Strategic Investment Fund (SIF) commitments | 15-18 | 24 | * |
| **New Measure** Average gross salary of new jobs created through business attraction and reinvestment | $25,000** | $29,000 | $30,000 |

* NSBI has adjusted its measurements to match its evolving objectives.
** New measure for 04/05. For benchmarking purposes, NSBI used 2002 personal income per capita data for the 03/04 target. The final number exceeded that target, and NSBI has set the 04/05 target higher.

Objective: To provide access to capital for new/existing businesses in Nova Scotia to enhance value-added growth for the province's economy.

| MEASURE | TARGET 03/04 | FINAL 03/04 | TARGET: 04/05 |
|---|---|---|---|
| Number of authorized Nova Scotia Fund investments in new/existing companies | 20 | 16 (value $10,285,500) | 32 |
| Percentage of Nova Scotia Fund used for equity/working capital transactions | 20-25% | 32.6% | 20-25% |
| Leverage Ratio Partner: NSBI | 1:1 | 2:1 | 1:1 |

Objective: To increase visibility and recognition, here and abroad, of Nova Scotia's business climate, advantages, and capabilities.

| | | | |
|---|---|---|---|
| Number of presentations to U.S. marketplace/organizations and/or targeted companies with reference to Nova Scotia's business strengths | 75 | 366 | * |
| Percentage increase over base measure of awareness of NSBI ("very" or "somewhat" familiar with NSBI) | +2% | +4% | +2% |

* NSBI is refining its targets to match its evolving business attraction activities; therefore, the corporation will replace this measure in 04/05.

Objective: To develop a results-oriented, business-focused organizational culture that encourages, empowers, and supports accountability, performance, and professionalism.

| | | | |
|---|---|---|---|
| Percentage of clients satisfied with NSBI services | to maintain baseline (established at 90% 2002/2003) | baseline maintained at 90% | to maintain baseline at 90% |
| Percentage of employees to participate in training and/or development programs | 80% | 100% | 80% |
| Operate within annual budget | $6.8 million | $6.8 million | $7.2 million |

# BUSINESS GROWTH

**" How do we grow Nova Scotia's economy? One business at a time."**

— Stephen Lund, NSBI President and CEO

No two businesses are alike; this understanding guides the way NSBI approaches business development. Each business-growth solution is tailored to meet the individual needs of a company. With a stronger provincial economy as its ultimate objective, the corporation ensures that partner companies and the province of Nova Scotia receive a return on every investment made by NSBI.

To this end, NSBI forms partnerships with growth-oriented, sustainable businesses, particularly in sectors that complement the strengths of the province and provide a fit for Nova Scotia.

Stating a strong business case for Nova Scotia, NSBI works one-on-one with external businesses to attract them to invest and locate in the province. Also, NSBI's mandate is to provide Nova Scotia businesses with the tools they need to grow in this province. To do this, NSBI uses its export development, business advisory, and financial services. Otherwise, the corporation connects its clients to programs and services offered by other business-development partners.

In 2003/2004, NSBI established new export-development programs and services, to advance businesses' efforts to penetrate new markets and/or expand existing ones. To support these goals, NSBI reorganized to focus on small-business growth and targeted its efforts to attract new businesses to rural Nova Scotia. Within the province's primary growth sectors (energy, information technology, advanced manufacturing, learning, and life sciences), NSBI concentrated its efforts to develop sustainable opportunities that build on the province's inherent strengths. Outreach activity increased in key markets such as Washington, New York, Boston, and Chicago. NSBI also extended its efforts to include Amsterdam and Brussels.

NSBI's approach is informed, adaptive, and co-operative. The corporation analyzes trends and issues, connecting them with the bigger picture. NSBI strives to adjust programs and services to meet the changing needs of businesses.

The Government of Nova Scotia has recognized there is a need to help small businesses bid on government goods and services. In 2004/2005, the province will establish a Supplier Development program, and has recognized NSBI's integral role as the province's business development agency.

NSBI will continue to work directly with businesses and organizations located in Nova Scotia and abroad. Through partnerships, responsive programming, and creative solutions, NSBI will work to grow Nova Scotia's economy — one business at a time.

Surveyed in 2003, 86% of Nova Scotia businesses said they were somewhat or very optimistic about the next three years: 59% said they planned to hire additional staff within 12 months, 55% said they will introduce a new product or service, and 44% said they planned to invest in facilities or equipment.

— NSBI commissioned survey, fall 2003

Left to right: Alaisdar Graham, Managing Director, Keane Canada Inc.; Laurence Shaw, Senior Vice-President, International Operations for Keane Inc.; and Jason Powell, Process Mgt. Group Manager, Keane Canada Inc.

" A stable pool of high-quality graduates, world-class technology infrastructure, cultural similarities, as well as geographical and time-zone proximity.... Nova Scotia has fantastic capability," explained Laurence Shaw, Senior Vice-President, International Operations for Keane Inc. The company, a leading information technology (IT) and business-outsourcing firm, chose Nova Scotia as its Nearshore Advanced Development Centre location in 1996.

Building on Nova Scotia's advantages, Keane Canada's Halifax team (today numbering more than 340 skilled professionals) has successfully designed advanced-software solutions for a growing number of clients: Toyota, Tufts Health Plan, and Fortune 100 financial-services companies, such as Allmerica Financial Corporation.

In 2003, assisted by NSBI's payroll-rebate program and funding from the Nova Scotia Office of Economic Development, Keane became the first Canadian IT services facility to earn a CMM Level 5 assessment — the top, software quality-management standard for the overall performance of an IT organization.

According to Keane Canada's Managing Director, Alaisdar Graham, the company's ongoing relationship with NSBI has been invaluable in supporting growth.

" NSBI and its partners have made Nova Scotia a more attractive place for Keane to do business," said Graham. " Since we've formed a relationship with NSBI, we've managed to grow more than 50 per cent."

# BUSINESS ATTRACTION

## STRATEGIC OBJECTIVE

TO ATTRACT GROWTH-ORIENTED COMPANIES, LEADING TO LONG-TERM, SUSTAINABLE GROWTH IN ALL REGIONS OF NOVA SCOTIA

### NEW INVESTMENT BY COMPANIES IN 2003/2004, EXPECTING TO CREATE UP TO 3,300 JOBS

AMEX CANADA

CAPE BRETON CASTING

CONVERGYS CUSTOMER MANAGEMENT (CORNWALLIS)

CREDITEK CANADA

EDS CANADA

EPC INDUSTRIES

HERSHEY CANADA

KEANE CANADA

LIGHTBRIDGE

MINACS

ON-LINE SUPPORT

STAPLES

TORSTAR

The establishment of new businesses in Nova Scotia means new opportunities for Nova Scotians. External investment injects new capital into Nova Scotia's economy, creating jobs, increasing tax revenue, and acting as a catalyst for the creation of other opportunities within the province's regions. Also, Nova Scotia businesses benefit by learning about and incorporating the successful practices of global companies who choose to invest here.

NSBI is a matchmaker: it marries the needs of growth-oriented, global companies with the needs and strengths of Nova Scotia's regions. NSBI strives to bolster and diversify Nova Scotia's foundation industries, and develop sectors that offer opportunities for new growth (such as manufacturing, energy, IT, and life sciences). Working with a network of partners and industry specialists, NSBI targets companies with good credentials and great potential.

In 2003/2004, NSBI presented a strong Nova Scotia business case to more than 360 companies and business organizations, primarily in key U.S. markets. With NSBI's Business Advisory Councils in Toronto and Massachusetts (NovaMass), and through targeted meetings in Europe and North America, NSBI enhanced its understanding of these markets and its ability to develop solid business leads for its clients.

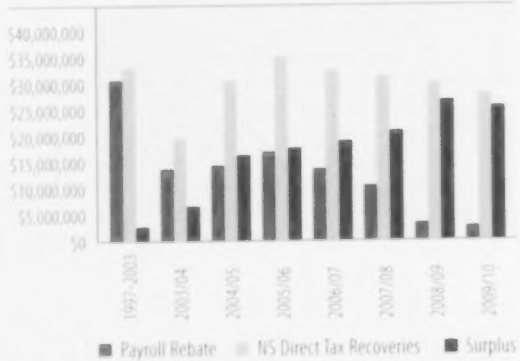
The corporation continued working on the Nova Scotia business case, focusing on the province's inherent strengths: an educated workforce, strong research and technological infrastructure, affordable business costs, and an unrivalled quality of life. With NSBI's partners and its payroll-rebate tool, 11 new external business investments were attracted to Nova Scotia, and two significant reinvestment projects were secured. In all, six of these investments went to rural regions of the province.

During 2003/2004, NSBI approved payroll-rebate commitments of $22.5 million to 13 companies, creating between 2,297 and 3,327 jobs over the lifespan of the agreements. The Government of Nova Scotia expects to recover almost $38 million in direct provincial personal taxes as a result of this employment, representing an estimated return on investment of $15.4 million during the life of the agreements. Translating that into a percentage, the return on investment is estimated to be 68 per cent.

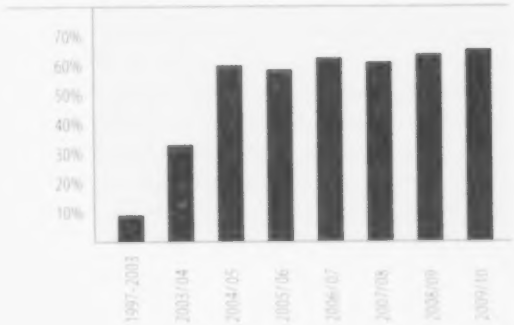
In 2004/2005, NSBI will continue to target potential investors and opportunities within key industries. The corporation will place increased emphasis on the following:

- nearshore outsourcing (software application development and other IT operations with expertise for various global clients);
- value-added and advanced manufacturing;
- medical devices and ocean-based nutritional supplements;
- aerospace and defence;
- the downstream energy sector (e.g. companies that provide services or products to the oil and gas industry and/or companies that create new, value-added products from energy sources, such as natural gas).

STRATEGIC INVESTMENTS CREATE A HEALTHY SURPLUS




STRATEGIC INVESTMENT FUND – ROI ANALYSIS 1997-2010



**Liverpool faced a challenge.** The municipality had built a state-of-the-art facility as an incentive to a major U.S. investor. When the deal fell through, officials were left with an empty building and dashed prospects for local employment.

The community regrouped and began its search for a new investor. Its focus: a company that wanted what Liverpool had to offer and that fit the community's long-term needs. Lightbridge Inc., a global leader in mobile and on-line cellular solutions, was seeking a location for a new customer-care centre. Presenting a strong business case for Liverpool and the offer of a five-year payroll-rebate commitment for the creation of 280 jobs, NSBI helped to secure the deal. The new centre, in operation since April 2004, currently employs 141. With ongoing efforts to increase its client base, Lightbridge expects to steadily increase its complement of staff in the months to come.

" Nova Scotia Business Inc. was an indispensable partner in attracting Lightbridge Inc. to the Region of Queens," said John Leefe, Mayor of the Region of Queens Municipality. "The initiative to bring a quality customer service centre to Liverpool is resulting in significant employment opportunities, with every prospect of further growth."

" It's proving to be very attractive to our young people and breathing new life into our community," he added. " The project is a winner from every perspective."

## BUSINESS ATTRACTION ACHIEVEMENTS

- NSBI is part of a team helping EPC Industries Limited (Poly Cello), a leading manufacturer of polyethylene products, expand its Amherst operations. The project will allow the company to increase exports to the U.S., boost market share, and support the creation of 60 to 70 full-time jobs.
- Creditek, a world leader in financial services outsourcing, chose Halifax as the site for its newest business process centre (BPO). The result will be up to 240 new jobs in the area by 2006. Halifax triumphed over nine other global cities. Creditek has said Halifax was the right choice for various reasons, including its infrastructure, workers' customer-service values, and Halifax's proximity to the U.S.
- With contact centres in New Glasgow and Dartmouth already exceeding targets, Convergys Customer Management Canada Inc., a global leader in customer care services, grew its operations with the establishment of a contact centre in Cornwallis. The new centre is expected to create between 250 and 500 jobs.

Left to right:
John Leefe, Mayor of the Region of Queens Municipality; and Robert Drover, Call Centre Manager, Lightbridge Inc.

# EXPORT DEVELOPMENT

## STRATEGIC OBJECTIVE

TO GROW NOVA SCOTIA BUSINESSES BY WORKING TOGETHER TO PENETRATE NEW MARKETS AND EXPAND EXISTING ONES.

## CLIENT COMMENTS

" Making solid contacts in new markets requires a big investment of time and money. With NSBI's support, we arrived at the Banff Film Festival and hit the ground running. The meetings we had through Export Prospector were targeted and productive. We did two deals as a result of the program and are making headway on a number of others."

**Richard Lorway**
VICE-PRESIDENT, CHIEF OPERATING OFFICER, HELIX DIGITAL INC., SYDNEY, NS
EXPORT PROSPECTOR CLIENT

A broad market base is critical to long-term business growth; therefore, exporting is vital to a sustainable Nova Scotia economy. Companies that export are more innovative, productive, and competitive. They are stable and create more jobs. However, statistics show fewer than five per cent of the province's small and medium-sized businesses are exporting, a figure which has remained relatively unchanged in recent years.

During the fiscal year 2003/2004, NSBI worked one-on-one with 152 Nova Scotia companies, helping them achieve export sales of more than $32 million.

In its pilot year, 65 qualified meetings resulted from the Export Prospector program. These meetings helped seven Nova Scotia companies penetrate markets, such as Washington and New York. Immediate sales from these meetings totalled $150,000 (CDN). Additional sales valued at $450,000 (CDN) are anticipated. Through Export Prospector Plus, NSBI organized two targeted export missions to South Carolina and Boston. Sixty-six qualified meetings resulted for the eight companies that participated, and they generated immediate sales of $80,714 (CDN), while another $1,837,000 (CDN) in sales are anticipated.

During the year, NSBI introduced groups in the IT, energy, biotechnology, and natural resources sectors to the corporation's first Competitive Intelligence (CI) sessions. The expert-led sessions helped companies glean valuable business information from trade shows, conferences, and other business encounters. The corporation also launched RxPort, a referral tool designed to connect companies across the province with the Trade Team Nova Scotia partner who can meet their trade-related needs.

As Nova Scotia's representative for the Pan-Atlantic International Business Development Agreement (IBDA), NSBI oversaw and supported 30 export-related projects. The IBDA Board approved the projects (falling in four categories: Planning and Research, Market Information and Intelligence, Training, and International Business Development Activities), while NSBI and other partners carried them out.

In 2004/2005, NSBI will sharpen its focus on client-centred, export-development activities. To this end, the corporation will work to refine its tracking system to measure individual client achievements, such as initial and anticipated export sales and market expansion or penetration.

Louisbourg Seafoods Ltd. is no stranger to diversification. During the past seven years, the company has invested a portion of its annual revenues into new product research. The resulting value-added products, derived from traditional and underutilized marine resources, have increased the company's domestic sales and helped create local jobs (160 during peak season and 40 throughout the year).

Last year, species development manager Dannie Hansen and his team decided to turn their attention to international markets, but the research was costly, time-consuming, and bore little fruit.

In September, Hansen heard about Export Prospector Plus, a program offered by NSBI in collaboration with Enterprise Cape Breton Corporation (ECBC). The program promised to arrange at least six in-market meetings in Boston for participating Cape Breton companies.

"I signed up that week," Hansen said.

"NSBI and ECBC really proved their professionalism and ability on this mission. Not only did they arrange targeted, timely meetings for us, they also provided us with a thorough briefing on each company beforehand," he said. "This level of preparation gave us a real sense of comfort in our initial dealings with potential clients, and it continues to help us as we develop those relationships through follow up."

## CLIENT COMMENTS

"NSBI has been highly effective in opening doors for us in the Houston market, by arranging meetings with companies that fit our plans for future development. NSBI continues to support our efforts as we develop those leads."

**Richie Mann**
VICE PRESIDENT, BUSINESS DEVELOPMENT,
FABCO INC.,
DARTMOUTH, NS
SUPPLIER DEVELOPMENT CLIENT

"Oceanology is by far the best conference and trade show in the marine-science and ocean-technology business. It allows us to meet face-to-face with buyers, distributors, and potential partners. NSBI's help with logistics and offsetting some costs makes it much easier for companies to take advantage of these opportunities."

**Geoff Lebans**
PARTNER, BROOKE OCEAN TECHNOLOGY,
DARTMOUTH, NS
IBDA CLIENT

Left to right:
Annette Lewis, Project Assistant;
Dannie Hansen, Species Development Manager; and Jim Kennedy Jr., eldest son of Jim Kennedy, owner of Louisbourg Seafoods.

# BUSINESS ADVISORY TEAM

**" Each time we meet with a business, there is follow up," said Irvin Surette, NSBI Account Executive for Annapolis, Digby, and Yarmouth counties. " We connect them to NSBI's program specialists, or we make sure they have information that will help them take the next step with partners."**

## ACTIVITY HIGHLIGHTS

- NSBI completed 14 regional business-case analyses, providing information on the strengths, opportunities, and challenges that have an impact on economic development in each county of Nova Scotia. The information is helping NSBI and its partners develop sound strategies for each region.
- NSBI has improved its data-collection system to track issues and opportunities in each region, and by sector, resulting in more efficient analysis and action.

Each of NSBI's Business Advisory Team (BAT) Account Executives has more than 10-years experience helping businesses grow in every region of Nova Scotia. The team is a crucial part of NSBI's work developing partnerships with businesses to sustain and grow Nova Scotia's economy — one business at a time. BAT Account Executives are integrated into the business community.

Meeting regularly with companies to identify opportunities and to address challenges, BAT Account Executives link companies to the network of expertise found within NSBI, government, financing agencies, Chambers of Commerce, and development authorities.

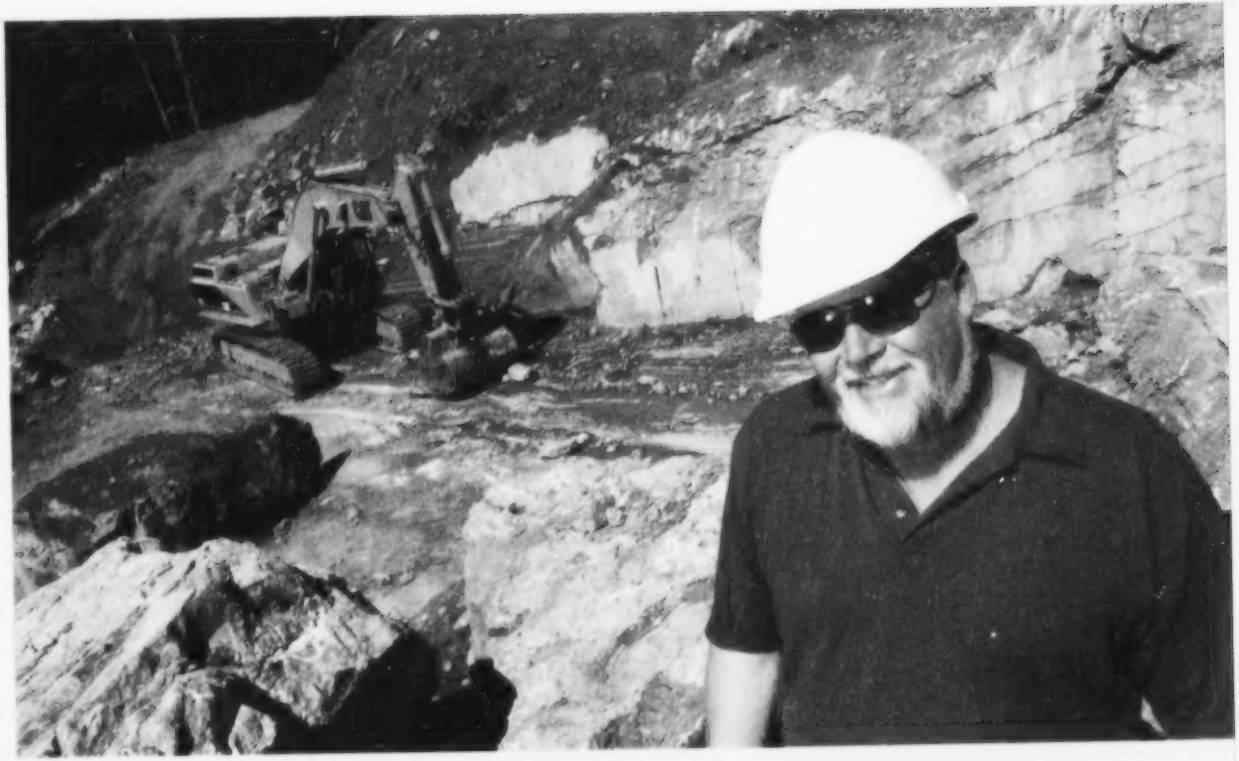
Throughout 2003/2004, members of NSBI's Business Advisory Team had 767 one-on-one meetings in boardrooms, quarries, and on factory floors with businesses across Nova Scotia. During these proactive and responsive encounters, NSBI identified growth opportunities for each business, connected them with the corporation's programs and services, or provided referrals to the programs and services of partners.

BAT Account Executives are a key source of information and advice. They work in six NSBI offices located in regions from Cape Breton to Yarmouth, and they ensure the corporation is constantly aware of issues affecting businesses. In 2003/2004, NSBI gauged the reaction of businesses to subjects such as exchange rates, insurance premiums, taxation, and business occupancy. In a timely fashion, NSBI channelled the information to the appropriate policy makers, ensuring that programs and policies were informed by an accurate picture of business.

To expand the skills that NSBI offers to businesses, Account Executives continued working toward or obtained certification from Business Retention and Expansion International (BREI). The internationally-recognized professional organization provides a proven, integrated approach to business and economic development. Additionally, BAT Account Executives continued to work closely with NSBI's financing, trade, and industry specialists, identifying businesses in Nova Scotia's regions that could benefit from the corporation's programs and services.

In 2004/2005, NSBI's BAT members will continue to increase their skills, particularly those related to exporting and financial services. In this way, NSBI will expand the services and expertise it has to offer businesses across Nova Scotia.

Facing page above left: Christopher Trider, owner, MacLeod Resources Inc. Below, left to right: Pamela Rudolph, NSBI Trade Officer, and Lynn Coffin, Business Advisory Team Account Executive.



**It started with one small sculpture.**

" One day, I found myself looking at the awards we were giving out to our export achievers and realized there might be an opportunity to add locally-mined marble to their base," said Lisa Dobson, NSBI Business Advisory Team Account Executive for Cape Breton.

Dobson quickly made an appointment to meet with Christopher Trider, owner of MacLeod Resources Ltd., a top-quality marble quarry and value-added marble-products operation in River Denys. A deal was struck to provide the marble for the awards; the relationship between NSBI and the company evolved from there.

In business for only a few months at that time, Trider had already secured contracts in Quebec and Ontario. His research suggested that in order to access markets, such as the U.S., China, and Italy, MacLeod Resources would need to upgrade its facilities and equipment to make operations efficient. Ultimately, Trider wanted to ensure the facility could increase production to add value to the marble and keep jobs closer to home.

Dobson called in the financial-services specialists at NSBI to work with Trider.

" Our ongoing relationship with NSBI has helped us to grow our business," said Trider. "With its help, we have made operational improvements which have already resulted in contracts with Italy, and we're making headway in other markets."

NSBI helps businesses in Nova Scotia grow, which expands the province's economy. Each day, NSBI staff members draw on the corporation's collective expertise. NSBI also forges partnerships with businesses, agencies, and community members — in the same villages, towns, and regions in which NSBI staffers live and work.

Early in 2004, for example, Business Advisory Team Account Executive Lynn Coffin worked with the Pictou Regional Development Commission (PRDC) to identify four companies from Pictou County to join an export mission to South Carolina. Coffin and NSBI Trade Officer Pamela Rudolph organized the NSBI Export Prospector Plus mission to the U.S. state, the second such mission to South Carolina.

" NSBI is an integrated corporation, working face-to-face with businesses in Nova Scotia, and presenting all the best of the province to the world," said Coffin. "After the export mission to South Carolina, I will be on the ground to support and follow up with the Pictou County companies. It's all about learning, growing, and excelling."

According to Rudolph, who will accompany Coffin and the companies to South Carolina this year, NSBI is focused on developing greater expertise for its business clients.

"It's one more example of the continuing work NSBI does each day," said Rudolph.

# FINANCIAL SERVICES

NOVA SCOTIA FUND AUTHORIZATIONS
FISCAL 2003/2004

| APPROVED INVESTMENTS: | |
|---|---|
| URBAN POUCH PACK | $62,000 |
| McNAMARA PALANGO | $80,000 |
| SEARISE FISHERIES | $260,000 |
| NOVALIS | $2,000,000 |
| OLD ORCHARD INN | $65,000 |
| A.F. THERIAULT | $650,000 |
| SWEDWOOD CANADA | $1,000,000 |
| UNIQUE SOLUTIONS | $347,000 |
| MacLEOD RESOURCES | $500,000 |
| RIVER'S BEND WOOD PRODUCTS | $82,500 |
| SURVIVAL SYSTEMS LTD. | $500,000 |
| 3-D AUTO PARTS | $84,000 |
| SUB TOTAL | $5,630,500 |

| OFFERS NOT ACCEPTED (BY CLIENTS): | |
|---|---|
| ARISAIG FISHERIES | $880,000 |
| THE RUMOUR MILL | $75,000 |
| CAPE BRETON CASTING | $3,000,000 |
| SCOTIA INNOVATORS | $700,000 |
| SUB TOTAL | $4,655,000 |
| TOTAL | $10,285,500 |

**" What's in it for Nova Scotia?**
**That's the question we ask ourselves each time we consider making a deal."**
— Pat Ryan, Vice President, Financial Services, NSBI

NSBI's approach to financial services seeks to balance two objectives: provide solid Nova Scotia businesses the capital they need to grow, while ensuring a return on investment.

To this end, NSBI applies rigorous due diligence to every project. Terms are flexible and structured to fit the realities of business. NSBI works to fill funding gaps in the marketplace — particularly those related to the development of new markets or sectors, in which progress may be slow, but there is also solid opportunity for long-term payoff. Often, NSBI's investment acts as a complement to capital from other private and public-sector investors. Also, it can act as a catalyst to spur other investment.

In all NSBI financial-service partnerships, companies share in the risk. Deliverables are identified and measured. NSBI must be satisfied, based on the business case, that loans can be repaid. With equity investment, a clear exit strategy is a key element of the corporation's due diligence.

In fiscal year 2003/2004, NSBI authorized investments of $10.285 million to 16 companies, leveraging an additional $22 million from public and private investors, on authorized deals.

NSBI is conscious of its responsiveness and its turn around times. In the past fiscal year, the corporation enhanced its evaluation structures, while maintaining practices of rigorous due diligence. Initiatives such as the Capital Ideas Road Show, saw NSBI continue its work with partners to educate and inform businesses across Nova Scotia about options and various forms of financing.

Moving into 2004/2005, NSBI will work to develop new financing vehicles to help businesses address productivity challenges. With the help of NSBI's Business Advisory Team and industry specialists, the corporation will pursue aggressive business-development strategies to place capital in the hands of growing Nova Scotia businesses, particularly those located in rural areas.

Almost half of business respondents cited access to capital as critically important to their business operation; however, only 2% said they were completely satisfied with how those needs are currently met.

— NSBI commissioned survey, fall 2003

**They came for a trade show and decided to stay.**

" In Ontario, we were lost in the crowd. We were looking for a place in which our product was unique and where we felt we could grow. Nova Scotia was a natural fit," said Paul Palango, a former journalist. He and his partner, stained-glass artist Sharon McNamara, moved to Chester Basin in 2001.

Since that time, the couple's high-end, hand-made glass dinnerware and giftware (marketed under the name Kiln Art) has found its way into restaurants and shops across North America, and onto the tables of several top corporate dining rooms around the world.

From the outset, sales generated directly through the company's Chez Glass Lass shop in Chester and through distributors in other markets, have risen steadily. Sales doubled in the company's first year in Nova Scotia and quadrupled the next. Last year, a Chez Glass Lass shop opened in Ottawa.

In 2003, realizing their original production facilities (housed in a converted 1,800 sq.ft. barn) could not accommodate more growth, McNamara and Palango decided to expand. NSBI was there to help, investing in the construction of a new 4,200 sq.ft. building and the purchase of 18 new kilns.

" NSBI has helped us get to where we are today," said Palango. "Our new facilities allow us to be more efficient and to take on bigger orders. That means we can now seek out new markets with confidence."

## FINANCIAL SERVICES HIGHLIGHTS

NSBI invested $650,000 in A.F. Theriault and Son Ltd., allowing the innovative Meteghan River-based shipbuilding company to produce specialized craft for the Royal Canadian Mounted Police. The company can bid on other larger contracts and expand its ability to supply to the burgeoning luxury craft market.

With $82,500 from NSBI, River's Bend Wood Products in Antigonish County increased its hardwood-flooring production, and extended into Western Canadian markets.

NSBI's $84,000 investment in Stellarton's 3-D Autoparts allowed the company to purchase an adjoining property and expand its facilities. Its new capacity allowed 3-D to service growing markets in Ontario and Quebec.

Sharon McNamara, left; and Paul Palango, centre; founders and principal designers, Kiln Art.

# PARTNERSHIPS AND PROMOTIONS

"Working with partners is a fundamental part of what we do."
— Martin Walker, Director, Small Business Growth

## COMMENT FROM A PARTNER

"NSBI has demonstrated an understanding of the importance of creating cross-border partnerships with organizations that represent growth industries, such as biotechnology and medical device production. Through our partnership, MassMEDIC has been able to introduce NSBI personnel and Nova Scotia businesses to potential partners in Massachusetts. In turn, we have been able to visit Nova Scotia to meet with potential industry partners in the life sciences. It has been an alliance of mutual benefit."

Thomas Sommer
PRESIDENT, MASSACHUSETTS MEDICAL DEVICE INDUSTRY COUNCIL
MEMBER, NOVAMASS ADVISORY COUNCIL

## PARTNERSHIPS

An effective partnership maximizes the resources and extends the reach of NSBI. With this understanding, the corporation continually works to develop and maintain partnerships to promote Nova Scotia business growth. In 2003/2004, NSBI deepened and expanded its alliances with companies and organizations here and abroad. Through them, the corporation improved its ability to offer solutions to businesses within Nova Scotia and to promote them to a wider audience around the globe.

Examples of NSBI partnerships at work in 2003/2004:

- Facilitated stakeholders' events to introduce Manulife Financial to the business community in Nova Scotia. Collaborating with Greater Halifax Partnership and the Halifax Chamber of Commerce, NSBI presented the strong business case for Nova Scotia's IT/software development sector. In a significant move, Manulife has chosen CGI's new International Systems Development Centre in Halifax to service Manulife's core IT functions. Meantime, CGI has also committed to

During 2003/2004, NSBI has been a strategic partner in assessing the business potential for landing liquefied natural gas (LNG) in Nova Scotia. The U.S. Energy Information Administration has predicted the world's natural gas consumption, between the years 2000 and 2025, will double; therefore, the opportunity to diversify Nova Scotia's participation in the global trade of natural gas is clear.

NSBI's role has been to assess the business case of LNG in Nova Scotia, and to take a leadership role in identifying how a LNG terminal could enhance regional industries and build upon existing infrastructure, such as pipelines, utilities, and offshore natural gas development.

As a global commodity, natural gas is extracted from remote reserves, liquefied, then transported by large ocean tankers to markets in Asia, Europe, and North America. Within North America specifically, a LNG re-gasification terminal is considered to be a strategic resource for environmentally-friendly power generation, and a guaranteed long-term energy supply (min. 20 years), which would attract industries to a region.

"There is real potential for LNG to complement Nova Scotia's offshore energy development, and to supply energy to the lucrative northeast energy market," said Paul Boutilier, NSBI Energy Executive.

"Large supplies of natural gas are available world-wide for conversion to LNG, potentially including huge amounts of stranded gas that are too far from existing pipelines. Once converted to LNG, natural gas can be transported to a terminal in Nova Scotia via specially designed, double-hulled ocean tankers," Boutilier added, "because of technological advances, lower costs associated with LNG processing and delivery are making LNG a cost-competitive source to meet gas demand."

Another established application for LNG is seasonal gas storage. Roughly 100 LNG plants, called peak shaving plants, have been constructed around the world to liquefy and store natural gas during warmer months. During cold weather, the gas is vaporized and injected into local pipelines. This storage application would be a valued solution for Nova Scotia offshore partners.

grow in Nova Scotia, providing outsourcing services to more global clients. The province's talented IT/business community, cost advantages, and close proximity to U.S. markets provide a substantial advantage to CGI. The trend among most U.S. companies is to seek software and IT expertise outside their own corporations, and they are looking to companies in countries outside the U.S. to fulfill their outsourcing needs. Nova Scotia has the best combination of location, skills, and understanding of business practices that will enable it to grow in what's known as nearshore outsourcing.

- NSBI joined forces with Export Development Canada (EDC) and Maple Trade Financing to offer information on export development and financing opportunities. The partners presented details of their services to export-ready businesses in Sydney and Port Hawkesbury.
- Teaming up with ECBC, NSBI led an export-development mission to New England, coinciding with the annual tree-lighting ceremony in Boston. Three Cape Breton companies and one from Guysborough made valuable contacts with businesses there, signing deals which continue to grow.
- NSBI wrapped up the final leg of its Capital Ideas Roadshow. It offered businesses across Nova Scotia hands-on information, presentations, and discussions on all aspects of financing for business growth. NSBI created and delivered the Roadshow in conjunction with the following partners: KPMG, RBC Financial Services, Export Development Canada, Business Development Bank of Canada, ACOA, ECBC, National Research Council-Industrial Research Assistance Program (IRAP), and Boyne Clark Barristers and Solicitors.
- NSBI joined forces with the Greater Halifax Partnership (GHP), Nova Scotia Office of Economic Development, and the Downtown Halifax Business Association to present Richard Florida, a best-selling author and expert regarding the direct correlation between creative thinking and a healthy local economy.

## PROMOTIONS

Promoting what Nova Scotia has to offer is a key driver of business attraction and growth. In Nova Scotia, NSBI works to ensure businesses and members of the economic-development community recognize and pursue growth opportunities. Outside Nova Scotia's borders, NSBI works to present the province's strong business case to the world.

Among NSBI's promotional work in 2003/2004:

- Hosted a U.S./Canada Trade Breakfast where U.S. Ambassador to Canada Paul Cellucci addressed trade relations. The event drew more than 700 business people from across Nova Scotia.
- Business Advisory Team members participated in Small Business Week presentations and trade shows province-wide.
- Sponsored Dr. Ivar Mendez of the Brain Repair Centre, as the Nova Scotia representative at "Innovators and Inventors: Journey to the Future". The round-table discussion was a highlight of MassBiotech's annual investment conference.
- With the Canadian Manufacturers and Exporters, NSBI presented the 2003 Export Achievement Awards. Sponsors included Aliant, RBC Global Services, Michelin North America Canada Inc., Greater Halifax Partnership, Export Development Canada, ACOA, and Grant Thornton.
- To promote Nova Scotia growth sectors, NSBI sponsored various activities throughout the province, including BioPort, Canadian Onshore/Offshore Resources Exhibition and Conference, NovaKnowledge Luncheon Series and Economy Report Card, and ITANS CEO Bootcamp.
- Worked with Chambers of Commerce across Nova Scotia to create a regional export achievement award program. The awards celebrate the successes of individual exporters and reinforce the importance of export at a local level.

In 2004/2005, NSBI will continue to promote business growth across Nova Scotia. A new set of strategic profiles, which feature NSBI's target growth sectors (life sciences, advanced manufacturing, information technology, learning, and energy), are designed to fortify business-attraction efforts in key markets across the globe.

## COMMENTS FROM PARTNERS

"BioNova and NSBI share a common goal in furthering the development of a strong and thriving life sciences industry in Nova Scotia. NSBI's support toward events such as BioPort, allows us to present quality programs and services to our members, while exposing businesses to this healthy, evolving industry in Nova Scotia."

**Marli MacNeil**
CHIEF EXECUTIVE OFFICER, BIONOVA

"Our business provides the means by which Nova Scotia exporters can better manage cash flow, while they expand their export sales. In partnering with NSBI and EDC to help deliver this product, we are able to combine our efforts, and ultimately help exporters and the province become more productive and competitive."

**Carole-Ann Miller**
PRESIDENT, MAPLE TRADE FINANCE INC.

# OUR TEAM

## DEVELOPING TALENT

Skilled, dedicated, innovative thinkers, willing to go above and beyond — these are just a few of the qualities that describe the 66 staff members at NSBI.

In 2003/2004, NSBI continued to strengthen its ranks through targeted recruitment and training. In the past fiscal year, all NSBI employees developed their skills or learned new ones. The range included performance-management training, occupational health and safety courses, customer service training, and lending-practices training.

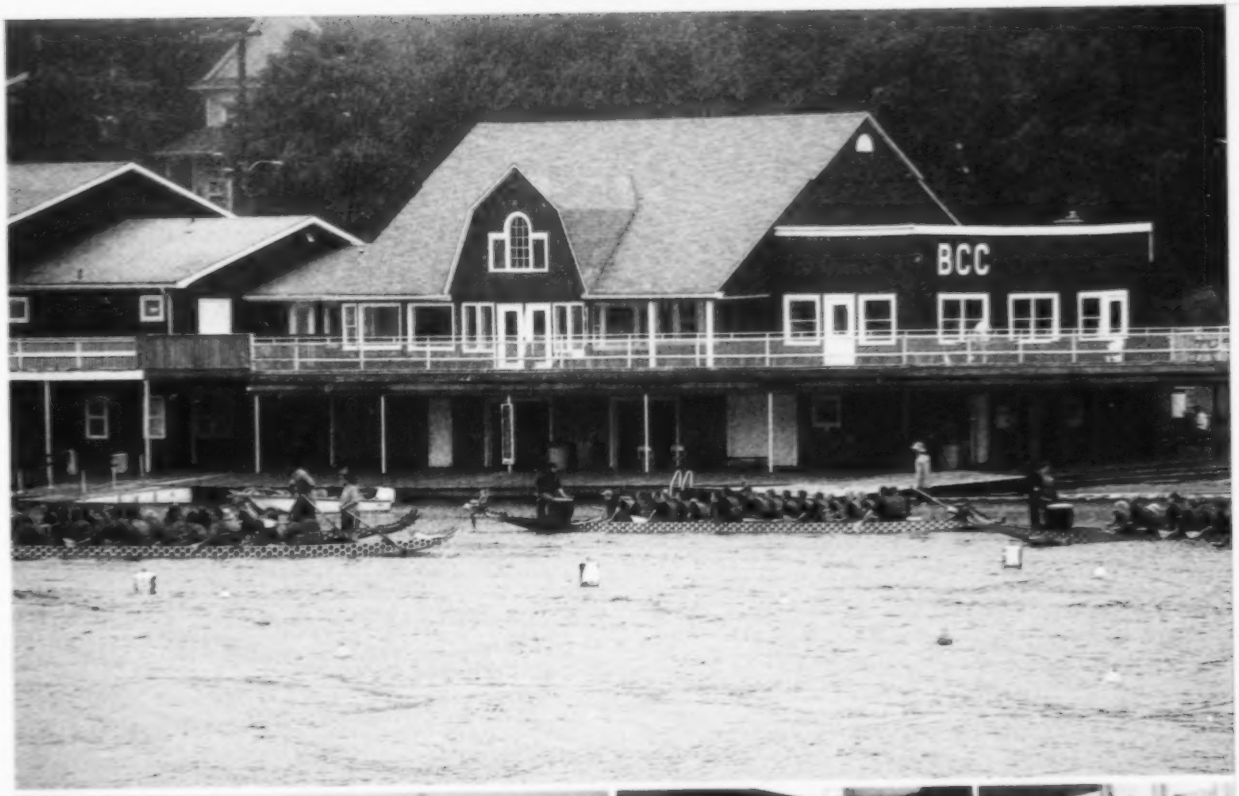
NSBI team members recognized the performance and dedication of three of their peers through the President and CEO Award. Last year's recipients were Brenda Baker, Candace Sweet, and Jennifer Chiasson.

In April 2003, the corporation launched its new intranet site. This internal communications medium informed and motivated employees, and promoted better communication within the corporation.

In December, to support NSBI's stronger focus on exporting, the corporation realigned its structure, combining its business-advisory and export-development expertise in order to focus on small-business growth. In 2004/2005, in a co-ordinated effort, NSBI will expand its exporting skills, and increase market-penetration opportunities to grow businesses throughout Nova Scotia.

**" NSBI believes employees who are supported and empowered by the organization are better able to serve their clients and their communities."**

— Mary Ellen Tingley-MacLean, Manager of Human Resources



## GIVING BACK TO THE COMMUNITY

NSBI employees are part of the communities they serve. Volunteering for community-based initiatives is another way they strive to contribute to the communities in which they live and work.

In 2003, taking on the challenge of the annual Dragon Boat Race for the second consecutive year, an NSBI team helped raise funds for Nova Scotia amateur sport. Through a wide range of additional activities, such as regular donations to Canadian Blood Services and contributions to local charities from "Casual Friday" coffers, NSBI continued to make giving back to the community a way of life.

# CORPORATE GOVERNANCE

As the world of business development becomes more complex, so does the importance of good governance. NSBI strives to build Nova Scotia's economy, recognizing that it does so as a trustee of public funds. The corporation's Board of Directors, comprised of 13 business leaders from across Nova Scotia, promotes the accountability and performance of NSBI through the following activities:

- developing an appropriate corporate governance framework;
- overseeing the strategic planning process;
- monitoring the annual business planning process;
- identifying and monitoring major risks facing the corporation;
- monitoring the integrity of the corporation's internal control systems;
- approving financial transactions within board limits.

## CHAIR

**F. Thomas Stanfield**
President, Stanfield's Limited
Truro

## VICE-CHAIR

**Thomas A. Rose**
Chair and CEO, TAR Investments Limited
Halifax

## MEMBERS

**Dr. Sheila A. Brown**
President and Vice-Chancellor, Mount Saint Vincent University
Halifax

**Lawrence K. Evans**
Partner, Evans MacIsaac & MacMillan
Port Hawkesbury

**James W. Gogan**
Former President and CEO, Empire Company Limited
Stellarton

**Maurice Guitton**
President, EADS Composites Atlantic Limited
Lunenburg

**Doug Hall**
Managing Director, RBC Dominion Securities
Halifax

**Paul Kent**
Senior Vice President, Aliant Inc., & Chief Operating Officer, xwave
Halifax

**Larry LeBlanc**
President & CEO, Renewable Energy Services Limited
Windsor

**Alastair MacLeod**
President, Nova Scotia Chambers of Commerce
Sydney

**James A. Sapp**
President, J.A.S. Investments Limited
Liverpool

**Paul Taylor**
CEO, Nova Scotia Office of Economic Development
Halifax

## OFFICERS

**Stephen Lund**, President and CEO
**Tony Reeder**, Vice President, Business Development
**Patrick Ryan**, Vice President, Financial Services

Three committees were established to assist the Board in carrying out its responsibilities: Audit, Human Resources Governance, and the Investment Committee.

## AUDIT COMMITTEE

James Sapp (Chair); Larry Evans; and Alastair MacLeod

The Audit Committee is responsible for overseeing the corporation's financial reporting, assessing the corporation's internal controls and risk environment, as well as overseeing the activities of NSBI's external auditor.

## HUMAN RESOURCES GOVERNANCE COMMITTEE

Dr. Sheila Brown (Chair); Larry LeBlanc; and Maurice Guitton

The Human Resources Governance Committee is responsible for ensuring appropriate human resource-management policies are in place, managing the recruitment process for new board members, as well as developing and overseeing the organization's corporate governance principles.

## INVESTMENT COMMITTEE

Thomas Rose (Chair); Doug Hall; Paul Kent; and James Gogan

The Investment Committee is responsible for overseeing NSBI's investment framework and policies, monitoring the performance of the corporation's investment portfolio, and approving financial transactions within its authorization limit or recommending transactions to the full Board for approval.

In 2003, the Chairman and President/CEO welcomed new board members Doug Hall, centre left; and Lawrence Evans, centre right.

# FINANCIAL STATEMENTS OF NOVA SCOTIA BUSINESS INCORPORATED

YEAR ENDED MARCH 31, 2004

## Management's Responsibility for Financial Reporting

The accompanying financial statements of Nova Scotia Business Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles and, if necessary, contain certain items that reflect best estimates and judgment of management. The integrity and objectivity of the data in these financial statements are management's responsibility. Management is responsible for ensuring that all information in the Annual Report is consistent with the financial statements.

In support of its responsibility, management has developed and maintains financial and management control systems and practices to provide reasonable assurance that transactions are properly authorized and recorded, that financial information is reliable, that the assets are safeguarded and liabilities recognized, and that the operations are carried out effectively.

The Board of Directors' Audit Committee, comprised of non-management directors, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management, compliance & risk management, and the independent auditors to review internal accounting controls, audit results, accounting principles and practices, and to review and approve the financial statements.

These financial statements have been audited by the corporation's external auditors, KPMG LLP, and their report is presented herein.

Stephen Lund
President and
Chief Executive Officer

Mary Meade, C.A.
Controller

## Auditors' Report to the Directors

We have audited the balance sheet of Nova Scotia Business Incorporated as at March 31, 2004 and the statements of revenue, expenditures and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Halifax, Canada May 28, 2004

# BALANCE SHEET

(IN THOUSANDS OF DOLLARS)

MARCH 31, 2004,
WITH COMPARATIVE FIGURES
FOR 2003

| | 2004 | 2003 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash | $ 13,043 | $ 9,241 |
| Accrued interest receivable | 560 | 743 |
| Due from the Province of Nova Scotia | 9,236 | 9,654 |
| Other receivables | 688 | 562 |
| | 23,527 | 19,251 |
| Nova Scotia Business Fund assets: | | |
| Loans receivable (notes 3 and 7) | 112,539 | 119,958 |
| Equity investments (notes 4 and 7) | 9,689 | 7,098 |
| Industrial Parks and malls (note 5) | 4,823 | 4,747 |
| Other assets (notes 6 and 7) | 111 | 114 |
| | 127,162 | 131,917 |
| | $ 150,689 | $ 151,168 |
| **LIABILITIES AND EQUITY** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 19,378 | $ 10,905 |
| Provision for payment of guarantees (note 7) | 1,990 | 2,596 |
| Principal due within one year to the Province of Nova Scotia | 12,481 | 13,284 |
| | 33,849 | 26,785 |
| Long-term debt: | | |
| Due to the Province of Nova Scotia (note 8) | 103,571 | 114,142 |
| Equity (note 9): | | |
| Retained earnings | 13,269 | 10,241 |
| Commitments (note 11) | | |
| Contingencies (note 12) | | |
| | $ 150,689 | $ 151,168 |

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

Approved on behalf of the Board

Director

Director

# STATEMENT OF REVENUE, EXPENDITURES, AND RETAINED EARNINGS

(IN THOUSANDS OF DOLLARS)

YEAR ENDED MARCH 31, 2004, WITH COMPARATIVE FIGURES FOR 2003

| | 2004 | 2003 |
|---|---|---|
| **REVENUE:** | | |
| Provincial grants: | | |
| Operating grant | $ 6,815 | $ 6,600 |
| Strategic investment grant | 17,184 | 15,126 |
| Valuation allowance grant | 2,000 | 3,874 |
| Interest on loans receivable | 9,165 | 11,675 |
| Other investment income | 2,083 | 754 |
| Gain on disposal of Industrial Parks | 764 | 2,127 |
| Miscellaneous | 464 | 246 |
| | 38,475 | 40,402 |
| **EXPENDITURES:** | | |
| Operating expenses (Schedule 1) | 6,815 | 6,595 |
| Strategic investments | 17,184 | 15,126 |
| Provision for credit losses and payment of guarantees | 2,001 | 5,965 |
| Nova Scotia Business Fund expenses (Schedule 2) | 9,447 | 2,475 |
| | 35,447 | 30,161 |
| Excess of revenue over expenditures | 3,028 | 10,241 |
| Retained earnings, beginning of year | 10,241 | — |
| Retained earnings, end of year | $ 13,269 | $ 10,241 |

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

# STATEMENT OF CASH FLOWS

(IN THOUSANDS OF DOLLARS)

YEAR ENDED MARCH 31, 2004, WITH COMPARATIVE FIGURES FOR 2003

| | 2004 | 2003 |
|---|---|---|
| **CASH PROVIDED BY (USED IN):** | | |
| **OPERATIONS:** | | |
| Excess of revenue over expenditures | $ 3,028 | $ 10,241 |
| Add (deduct) items not involving cash: | | |
| Amortization | 239 | 256 |
| Provision for credit losses and payment of guarantees | 2,001 | 5,965 |
| Capitalized interest on loans receivable | (1,482) | (2,613) |
| Gain on sale of Industrial Parks | (764) | (2,127) |
| Change in non-cash working capital: | | |
| Increase in accrued interest receivable | 232 | (792) |
| Increase in due from Province of Nova Scotia | (582) | (1,149) |
| Increase in other receivables | (126) | (557) |
| Increase in accounts payable and accrued liabilities | 8,473 | 3,295 |
| | 11,019 | 12,519 |
| **INVESTMENTS:** | | |
| Loan advances | (9,588) | (14,707) |
| Principal received on loans | 16,088 | 15,736 |
| Redemption of shares | 105 | 454 |
| Issue of convertible debentures | (2,900) | (750) |
| Proceeds from disposal of Industrial Parks | 764 | 2,174 |
| Capital additions | (348) | — |
| Provision for credit losses and payment of guarantees | 2,001 | 5,965 |
| Other | 7 | (69) |
| | 4,128 | 2,838 |
| **FINANCING:** | | |
| New borrowings from the Province of Nova Scotia | 2,175 | 9,365 |
| Principal repayment to the Province of Nova Scotia | (13,522) | (15,579) |
| | (11,347) | (6,214) |
| Increase in cash | 3,800 | 9,143 |
| Cash, beginning of year | 9,243 | 100 |
| Cash, end of year (note 15) | $ 13,043 | $ 9,243 |

CASH IS DEFINED AS CASH AND SHORT-TERM INVESTMENTS.
SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

# NOTES TO FINANCIAL STATEMENTS

(IN THOUSANDS OF DOLLARS)

YEAR ENDED MARCH 31, 2004

Nova Scotia Business Incorporated is a corporation, wholly-owned by the Province of Nova Scotia with an independent Board of Directors. The Corporation was established pursuant to the Nova Scotia Business Incorporated Act, Chapter 30 of the Acts of Nova Scotia 2000. The Corporation's mission is to deliver client-focused business solutions that result in sustainable, value-added economic growth for Nova Scotia.

## 1. Summary of significant accounting policies:

(a) Loans receivable:

Loans receivable are recorded at cost less a general allowance for credit losses equal to 5% of cost. In addition, a specific allowance is recorded if management considers it necessary to reduce the loan to its estimated receivable amount.

(b) Equity investments:

Equity investments are initially recorded at cost less a general allowance for credit losses equal to 10% of cost. This allowance is immediately regarded to reflect the increased risk associated with equity investments. The investments are reviewed annually for potential declines in value. If a decline is considered to be other than temporary, a specific allowance is recorded.

(c) Industrial parks and malls:

The industrial parks and malls consist of properties held for sale and improved properties consisting of land and land improvements, buildings, wharves and utilities. Land is recorded at the lower of cost and estimated net realizable value. The remaining assets are recorded at cost and amortized on a declining balance basis over their estimated useful lives as follows:

| ASSET | RATE |
|---|---|
| Land improvements | 5% |
| Industrial malls and other buildings | 5% |
| Wharves | 5% |
| Utilities | 10% |

The Department of Transportation and Public Works has operational responsibility for the industrial parks and malls. Certain revenues and expenses associated with the operation of the industrial parks and malls are accounted for by the Department of Transportation and Public Works and are not reflected in these financial statements.

(d) Revenue recognition:

Interest revenue on loans receivable is recognized on an accrual basis unless the ultimate collectability of the loan is in doubt. When a loan is classified as impaired, interest revenue is no longer recognized, and any interest income that is accrued is reversed. A loan is considered impaired when there is risk of loss to the Corporation of the full and timely collection of principal and interest generally, when it is more than three months in arrears.

(e) Allowance for credit losses and provision for payment of guarantees:

As financing is advanced, the Corporation immediately records a general allowance equal to 5-10% of the amount disbursed. In addition, the Corporation provides for possible credit losses on an item-by-item basis by examining such factors as the client's financial condition and the fair value of the underlying security.

The provision for credit losses is partially offset by funding from the Province of Nova Scotia in the form of a Valuation Allowance Grant.

(f) Use of estimates:

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

## 2. Fair values of financial instruments:

Financial assets and financial liabilities:

The carrying values of cash, accrued interest receivable, other receivables, accounts payable, accrued interest payable and due from Province of Nova Scotia approximate their fair values because of their short term to maturity.

The fair values of loans receivable approximate their net realizable value.

Equity investments, loan guarantees and other assets represent investments and guarantees in private, held companies as well as property acquired through foreclosure. Due to the limited amount of comparable market information available it was not practical to determine the fair value of these assets.

Due to the Province of Nova Scotia is comprised of a series of separate notes, the largest of which has no set terms of repayment. Principal is repaid to the Province as it is collected on the loans receivable financed by this note. Due to the volume of accounts financed by this note and the uncertainty with respect to timing of future cash flows, it is not practical to determine the fair value of the amount due to the Province of Nova Scotia.

# NOTES TO FINANCIAL STATEMENTS

(CONTINUED)

3. Loans receivable:

| | 2004 | 2003 |
|---|---|---|
| (a) Principal due: | | |
| Performing loans | $ 124,003 | $ [illegible] |
| Impaired loans | 38,278 | [illegible] |
| | 162,281 | [illegible] |
| Allowance for credit losses (note 7) | 49,742 | [illegible] |
| | $ 112,539 | $ [illegible] |

Included in the above loans receivable are loans with concessionary terms which have principal amounts outstanding of $175 (2003 - $938) and concessionary allowance of $104 (2003 - $262). The concessionary term is in the form of interest free financing.

The concessionary allowance is calculated as the difference between the financing advances and the net present value of the anticipated future repayments at an interest rate similar to the usual established terms of the Corporation.

(b) Principal payments receivable in each of the next five years are as follows:

| | |
|---|---|
| [illegible] | $ 12,780 |
| [illegible] | 13,540 |
| [illegible] | 24,917 |
| [illegible] | 25,306 |
| [illegible] | 10,985 |

4. Equity investments:

| | 2004 | 2003 |
|---|---|---|
| [illegible] loans | $ 3,092 | $ [illegible] |
| [illegible] loans | 6,696 | [illegible] |
| [illegible] investments | 4,150 | [illegible] |
| | 13,938 | [illegible] |
| Allowance for credit losses (note 7) | 4,249 | [illegible] |
| | $ 9,689 | $ [illegible] |

One of the convertible debentures, valued at $1 million, matured before year-end. No action has been taken by the Corporation to demand repayment or to exercise the conversion options inherent in the instrument. Management is negotiating with the company to extend the maturity date.

5. Industrial parks and malls:

| | | | 2004 | 2003 |
|---|---|---|---|---|
| | Cost | Accumulated depreciation | Net book value | Net book value |
| Land | $ [illegible] | [illegible] | $ 268 | $ [illegible] |
| Land improvements | [illegible] | [illegible] | 703 | [illegible] |
| Industrial malls and other buildings | [illegible] | [illegible] | 2,705 | [illegible] |
| Malls | [illegible] | [illegible] | 552 | [illegible] |
| Others | [illegible] | [illegible] | 595 | [illegible] |
| | $ [illegible] | $ [illegible] | $ 4,823 | $ [illegible] |

6. Other assets:

| | 2004 | 2003 |
|---|---|---|
| Property acquired through foreclosure or [illegible] | $ 959 | $ [illegible] |
| Less allowance for losses (note 7) | 848 | [illegible] |
| | $ 111 | $ [illegible] |

7. Allowance for credit losses and provision for payment of guarantees:

| | | | | 2004 |
|---|---|---|---|---|
| | Gross balance outstanding | Specific allowance | General allowance | Total allowance |
| Loans receivable (note 3) | $ 162,281 | $ 44,319 | $ 5,423 | $ 49,742 |
| Equity investments (note 4) | 13,938 | 3,173 | 1,076 | 4,249 |
| Guarantees (note 12) | 2,625 | 1,922 | 68 | 1,990 |
| Other assets (note 6) | 959 | 842 | 6 | 848 |
| | $ 179,803 | $ 50,256 | $ 6,573 | $ 56,829 |

| | | | | 2003 |
|---|---|---|---|---|
| | Gross balance outstanding | Specific allowance | General allowance | Total allowance |
| Loans receivable (note 3) | $ [illegible] | $ [illegible] | $ [illegible] | $ [illegible] |
| Equity investments (note 4) | [illegible] | [illegible] | [illegible] | [illegible] |
| Guarantees (note 12) | [illegible] | [illegible] | [illegible] | [illegible] |
| Other assets (note 6) | [illegible] | [illegible] | [illegible] | [illegible] |
| | $ [illegible] | $ [illegible] | $ [illegible] | $ [illegible] |

# NOTES TO FINANCIAL STATEMENTS

(CONTINUED)

## 8. Due to Province of Nova Scotia:

| | 2004 | 2003 |
|---|---|---|
| | Principal outstanding | |
| Note payable 2005 (i) | $ 76,952 | $ 70,000 |
| Note payable 2007 (ii) | 32,975 | 30,000 |
| Note payable 2008 (iii) | 2,869 | 2,609 |
| Note payable 2009 (iv) | 634 | 576 |
| Note payable 2010 (v) | 385 | 350 |
| Note payable 2013 (vi) | 1,177 | 1,070 |
| Note payable 2015 (vii) | 1,060 | 964 |
| | 116,052 | 105,569 |
| Interest due within the year | 12,481 | 11,354 |
| | $ 103,571 | $ 94,215 |

In 2004, the Province introduced a new policy regarding the repayment of note payable 2007 – (ii). The principal for this note is repayable to the Province when the principal is collected from the loans that are funded by this note. In addition, 80% of the interest received or capitalized on the underlying loans is repayable to the Province. Prior to the new policy, the note was interest free.

The remaining notes are repayable in quarterly installments of principal and interest based on the maturity dates and rates set out above.

(a) Principal payments due in each of the next five years are as follows:

| | |
|---|---|
| 2005 | $ 12,481 |
| 2006 | 11,707 |
| 2007 | 34,100 |
| 2008 | 3,431 |
| 2009 | 1,294 |

## 9. Share capital:

The Corporation has authorized 100 Class A common shares with a par value of $1 each. 100 common shares have been issued to the Province of Nova Scotia.

## 10. Nova Scotia Business Fund:

The Nova Scotia Business Fund (the "Fund") is comprised of investments approved under the direction and management of Nova Scotia Business Incorporated and investments transferred from the Nova Scotia Business Development Corporation Fund on November 6, 2001. The following is a summary of the Fund as at March 31:

| | 2004 | 2003 |
|---|---|---|
| Assets | | |
| Term loans receivable, net of provision for loan losses (note 10) | $ 13,900 | $ 14,165 |
| Due from Province (note 10) | 1,984 | 2,751 |
| | 11,916 | 11,414 |
| Investments (note 10) | 7,064 | 7,449 |
| | 18,980 | 18,863 |
| Term loans receivable, net of provision for loan losses (note 10) | 168,100 | 170,172 |
| Investments (note 10) | 2,625 | 4,303 |
| Due from Province (note 10) | 54,845 | 53,404 |
| | 115,880 | 116,769 |
| Investments accounted for on the equity basis (note 10) | 3,630 | 3,140 |
| | 119,510 | 119,909 |
| | $ 138,490 | $ 138,772 |
| Liabilities and Equity | | |
| Liabilities | | |
| Fund balance advanced, net of note (b) | $ 271,592 | $ 271,346 |
| Due to Province (note 10) | 76,273 | 77,277 |
| | 195,319 | 193,749 |
| Equity | | |
| Deficit | 56,829 | 55,143 |
| | $ 138,490 | $ 138,772 |

## 11. Commitments:

(a) The Corporation has approved financing of $ 5,000 (5 Notes and Contracts, NSBDC portfolio (2003 – $ 5,000)) and $ 2,000 respectively that is undisbursed at year-end.

(b) The Corporation administers strategic investments on behalf of the Province of Nova Scotia that permit approved businesses to receive a percentage of payroll taxes paid as a rebate. Expenses incurred by the Corporation are reimbursed by the Province of Nova Scotia in the form of a Strategic Investment Grant. As at March 31, 2004, transactions were approved with maximum grant payments over the next six years of $ 8.6 million (2003 – $ 9.8 million), as shown on page 29.

Commitments cont'd:

| | |
|---|---|
| 2005 | $ 38,461 |
| 2006 | 19,679 |
| 2007 | 12,856 |
| 2008 | 12,857 |
| 2009 | 1,188 |
| 2010 | 4,320 |

(c) In one of the industrial Parks owned by the corporation, a sewage treatment plant is in operation. The plant operates under license from the Department of Environment and Labour and does not meet current discharge standards. Management estimates an upgrade costing approximately $1.4 million is required in order to meet environmental standards.

## 12. Contingencies:

(a) Guarantees:

| | 2004 | 2003 |
|---|---|---|
| | Authorized | Utilized |
| Bank loan | $ 2,625 | $ 2,605 |
| Performance bonds | — | 250 |
| | 2,605 | 3,101 |
| Less provision for payment (note 9) | 1,990 | 2,576 |
| | $ 615 | $ 525 |

Bank loan guarantees issued in the amount of $445,000 (2003 – $450,000) were demanded by the bank before year-end. These guarantees had a provision for payment of $85,000 (2003 – $45) recorded against them.

Included in the bank loan guarantees is a guarantee to a US bank in the Canadian dollar amount of $1,911,000 (2003 – $2,974,000).

(b) Litigation:

The Corporation is in a dispute with the Province of Nova Scotia and Industrial Estates Limited in a dispute regarding environmental contamination on land previously owned by Industrial Estates Limited. Any issues arising related to the claim will be fully funded by the Province of Nova Scotia.

Counsel is unable to form an opinion at this early date in regard to the likelihood of loss (consequently no provision for any potential loss has been recorded in these financial statements).

## 13. Credit risk and interest risk:

(a) Credit risk:

Credit risk is the risk that a debtor may not pay amounts owing. The resulting bad debt. To mitigate this risk, the Corporation has developed the following policies:

Before a loan is approved, a risk assessment is performed on the client. Each loan is designated a risk rating based on the industry and business, quality of management, financial history and projections, other investors, level of financial involvement, ability of the client to access funds elsewhere, and any environmental risks. Applications with a high risk rating would warrant a higher interest rate or would not be approved if the level of risk is deemed unacceptable.

Clients are limited to a total of $15 million in financing from Nova Scotia Business Incorporated's Nova Scotia Business Fund. Two clients currently exceed this total; their loans were approved in the Nova Scotia Business Development Corporation Fund and transferred to the Nova Scotia Business Fund via legislation on November 6, 2001. The outstanding amounts for these clients are approximately $46 million and $21 million, respectively (2003 – $40 million and $20 million).

In addition to its regular monitoring procedures, at year-end, management performed an in-depth analysis of all loans in order to assess the Corporation's total exposure to credit and other risk. Factors such as the financial condition of the client were evaluated to determine how risk has changed since inception of the loan. Changes in risk are reflected in the carrying value of the loan via the provision for credit losses.

(b) Interest risk:

Interest rate risk is the impact future changes of interest rates have on cash flows and fair value of assets and liabilities. To mitigate this risk, the Corporation matches the repayment terms of amounts borrowed with the repayment terms of loans and advances as closely as practical.

Outstanding investments totaling nil (2003 – $50,000) were funded by an interest free long-term note payable to the Province of Nova Scotia.

## 14. Taxes:

The Corporation is not subject to provincial or federal taxes.

## 15. Supplementary cash information:

During the year, cash received for interest income was $nil (2003 – $40,000) and cash paid for interest was $1,000 (2003 – $1,000).

## 16. Related party transactions:

Financing has been advanced to companies which were controlled or otherwise influenced by certain directors of Nova Scotia Business Inc. at the time of the transactions. These investments totalled $nil (2003 – $250,000) and certain of these investments had specific allowances recorded against them totaling $nil (2003 – $50,000).

These transactions were carried out in the normal course of operations and on terms and conditions that would be similar to those of non-related parties.

## SCHEDULE 1

## SCHEDULE OF OPERATING EXPENSES

(IN THOUSANDS OF DOLLARS)

YEAR ENDED MARCH 31, 2004

| | 2004 | 2003 |
|---|---|---|
| Business development | $ 970 | $ 905 |
| Legal and audit | 98 | 185 |
| Office expenses | 216 | 224 |
| Other | 102 | 100 |
| Salaries and benefits | 4,640 | 4,309 |
| Telecommunications and technical support | 238 | 368 |
| Travel | 551 | 504 |
| | $ 6,815 | $ 6,595 |

## SCHEDULE 2

## SCHEDULE OF NOVA SCOTIA BUSINESS FUND EXPENSES

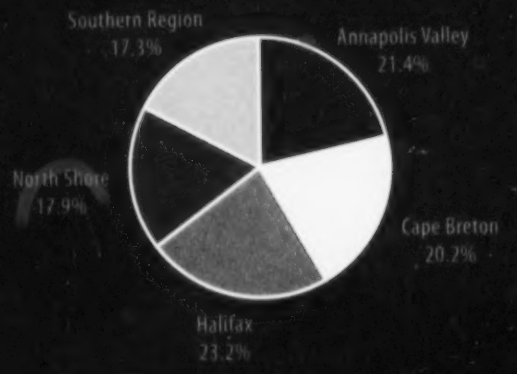
(IN THOUSANDS OF DOLLARS)

YEAR ENDED MARCH 31, 2004

| | 2004 | 2003 |
|---|---|---|
| Amortization | $ 239 | $ 256 |
| Commissions | 75 | 46 |
| Interest | 8,789 | 1,951 |
| Legal | 24 | |
| Repairs and maintenance | 320 | 342 |
| | $ 9,447 | $ 2,475 |

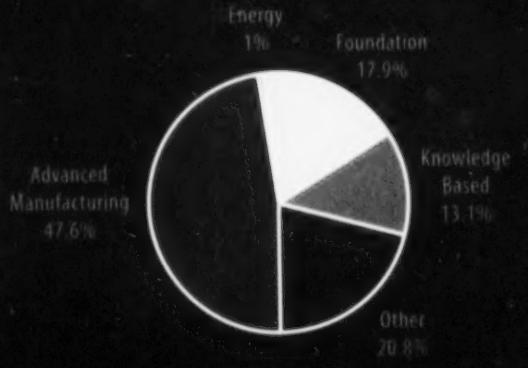
**Nova Scotia Business Inc.'s (NSBI) mission is to deliver client-focused business solutions that result in sustainable, value-added economic growth for Nova Scotia.**

## NSBI CLIENTS BY REGION




NSBI reaches out to clients in all regions of the province in order to generate economic growth. From Sydney to Yarmouth, NSBI provides financing and export development assistance to help companies – large and small – expand business opportunities.

## NSBI CLIENTS BY SECTOR




NSBI's business development activities are focused on sectors that continue to demonstrate growth potential for the province. The majority of NSBI's clients are concentrated in advanced manufacturing and knowledge based industries, including life sciences and information technology. NSBI also supports clients operating in resource-based foundation industries.

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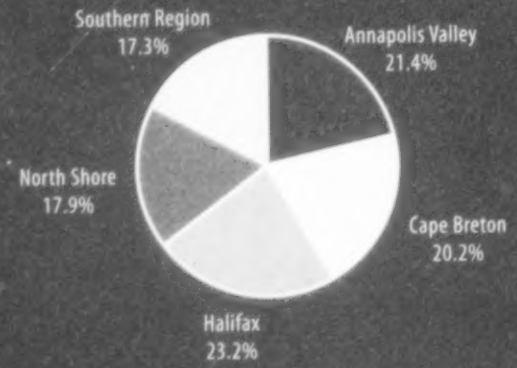


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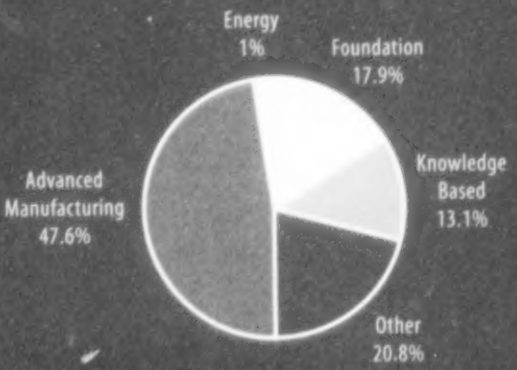


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*NEW BUSINESS THINKING*

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